



BOARD OF SUPERVISORS

Gloria Molina
First District

Yvonne Brathwaite Burke
Second District

Zev Yaroslavsky
Third District

Don Knabe
Fourth District

Michael D. Antonovich
Fifth District

THOMAS L. GARTHWAITE, M.D.
Director and Chief Medical Officer

FRED LEAF
Chief Operating Officer

COUNTY OF LOS ANGELES
DEPARTMENT OF HEALTH SERVICES
313 N. Figueroa, Los Angeles, CA 90012
(213) 240-8101

June 2, 2003

TO: Each Supervisor

FROM: Thomas L. Garthwaite, MD
Director and Chief Medical Officer

A handwritten signature in black ink, appearing to read "Thomas L. Garthwaite", is written over the printed name and title in the "FROM:" line.

SUBJECT: HIGH DESERT HOSPITAL

As you know, in accordance with your Board's approval of the Department of Health Services (DHS) strategic plan, DHS is working to cease the provision of inpatient services at High Desert Hospital, effective June 30, 2003, and begin the transition of the facility to a Multi-Service Ambulatory Care Center (MACC).

High Desert Hospital stopped all inpatient admissions as of May 23 and anticipates having discharged all remaining acute care patients by June 2. There are approximately 20 skilled nursing patients remaining in the facility pending transfer to new placements. In accordance with state law, on May 7, 30 days notice was provided to the majority of the skilled nursing patients of their transfer to another facility for on-going care or discharge. Once the 30-day notice period has expired, these patients will be transferred from High Desert Hospital to their new placement.

DHS also has sent notice to numerous regulatory and accrediting entities informing them of the impending termination of acute care services at the hospital. These include notices to the State Licensing agency, Medicare, Medi-Cal, and the Joint Commission of the Accreditation of Healthcare Organizations. Attached for your reference is a chronological listing of actions taken to date and additional notifications that will occur during the next quarter to complete the closure of the inpatient component of the facility.

The creation of the MACC is designed to enhance the availability of outpatient services, particularly urgent care and specialty care to the Antelope Valley community. Similar to

the experience after opening the South Antelope Valley urgent care program, establishing a new urgent care program at High Desert should relieve some of the demands on the emergency room at Antelope Valley Hospital by providing non-emergency patients with a place to seek care without going to the emergency room.

In April, the Department was approached by a private physician group in the Antelope Valley that proposed leasing High Desert Hospital to a privately owned entity and converting to a privately operated acute care hospital, that includes both inpatient acute and skilled nursing beds.

Under this proposal, all the beds would be leased to a non-profit health care foundation, which would contract with the private physician group to manage and operate the facility as an acute care hospital. The transfer of the facility's operation would occur after a six-month period, running July 1, through December 31, 2003. During the transition, the hospital staff would remain employees of the County and DHS would be responsible for the operation and cost of the facility, which is estimated to be \$6.7 million.

Upon the transfer of the hospital, the private entity would operate 30 acute care beds, the breakdown of which is projected to be: nine Medicare; 15 Medi-Cal; and, three private insurance. Additionally, three beds would be made available to the County for the care of indigent patients at a cost of half the physician group's Medi-Cal per diem rate, or approximately \$657,000 annually. The private entity also would make available, at cost, ancillary services to support the County-operated outpatient program at the facility.

Over the past month, DHS has worked with County Counsel and Chief Administrative Office to evaluate the legal, fiscal and programmatic implications of this proposal. Below is a summary of the major fiscal and operational issues identified in relation to the transfer of the facility's operation from the County to the private physician group. Additionally, County Counsel recently sent under separate cover a legal analysis of this proposal.

Los Angeles County/DHS Mission and Community Impact

The physician group has offered to provide to the County, at approximately \$600 per day, three beds for the care of indigent patients. While the proposal does maintain access to inpatient services to the general Antelope Valley community, the overall proposal does not further DHS' mission, as it is not designed to substantially improve the access of the indigent and uninsured to health care services. Additionally, to the extent that the number of Medicare and Medi-Cal patients at the facility increase during the six-month transition period, this proposal would divert County resources from their planned uses, and shift

them to maintaining an acute care facility that provides limited access to care for indigent patients.

While leasing of the facility to the physician group would prevent the negative impact of closure on the availability of inpatient beds in the community, it also would preclude the implementation of urgent care services and establishment of the MACC at the site. This will delay any relief that an urgent care clinic at the MACC might provide to the demand on the Antelope Valley Hospital emergency room and will deprive the community of the expanded ambulatory care services proposed by the Department.

Fiscal Impact

Entering into an agreement with the physician group would require the County to incur a minimum of \$6.7 million in costs during the six-month transition period. In order to make these dollars available, in light of the Department's fiscal difficulties, reductions ultimately will have to occur in services elsewhere in the system. Additionally, as noted above, if the Department is to utilize the three inpatient beds identified for indigent patients, the cost would be approximately \$650,000, which is not currently included in the Department's budget. The current hospital equipment would remain in the facility for the physician group's use, which may result in increased costs associated with the purchase of new or additional equipment for the MACC.

The Department's financial projections also do not include the cost of leasing off-site space for the MACC, the expenditure of which would not be offset by revenues associated with the lease of the property by the physician group, as their projections assume a lease cost of \$1 per year.

The physician group has indicated it is willing to provide a subsidy of up to \$2 million to offset the County's costs associated with the continued provision of inpatient services during the six-month transition. This support is contingent upon their receipt of disproportionate share funding that will be available in the first year of operation, as a result of High Desert Hospital's historic patient mix.

The physician group has been very responsive and diligent in assisting the Department in its initial analysis of this proposal. Based upon the physician group's assumptions and the information provided to the Department, the costs and revenues associated with the operation of the facility appear to be reasonable. However, their business plan appears to be aggressive, and while the financial projections indicate the program would be profitable for at least three years, many of these assumptions (e.g., the ability to recruit appropriate staff, patient payer mix, and negotiating favorable Medi-Cal rates) can only be tested through the actual experience of operating the facility under private management.

Each Supervisor
June 2, 2003
Page 4

While the establishment of an acute care hospital in the Antelope Valley would be of an overall community benefit, for DHS to subsidize this transition would establish a new precedent. Given that this proposal precludes the establishment of the MACC at the High Desert Hospital site, delays creation of a MACC in the Antelope Valley, results in a hospital that is not designed to support the County mission of providing care to indigents, and impacts the financial deficits projected for DHS, the Department continues to maintain the position set forth in its strategic plan that the most appropriate use of limited resources in this area is to convert High Desert Hospital from an acute inpatient facility to an expansive ambulatory care program.

Please let me know if you have any questions.

TLG:ss

Attachment

c: Chief Administrative Officer
County Counsel
Executive Officer, Board of Supervisors

\\WP\Operations\hdhprivate.doc

HIGH DESERT HOSPITAL TIMELINE

August 20, 2002: Board of Supervisors voted to close inpatient services at High Desert Hospital and create a Multi-service Ambulatory Care Center at the facility.

December 31, 2003: Department of Health Services (DHS) sent correspondence to the Centers for Medicare and Medicaid Services giving notice of its intent to terminate participation by High Desert Hospital in the Medicare program.

February 7, 2003: DHS sent correspondence to State Licensing clarifying its intent regarding termination of Medicare participation as an acute care facility.

March 2003: The Joint Commission on the Accreditation of Health Care Organizations (JCAHO) surveyed High Desert Hospital and extended its accreditation until September 2003.

March 28, 2003: State Licensing sent correspondence confirming the withdrawal of High Desert Hospital from the Medicare program as an acute care hospital.

April 1, 2003: High Desert Hospital sent correspondence to State Licensing notifying of its intent to close the skilled nursing unit, effective June 30, 2003, and its plans for relocating the skilled nursing patients residing in the facility.

April 22, 2003: State Licensing approves skilled nursing relocation plan.

Early May 2003: High Desert Hospital submitted an application to the California Board of Pharmacy related to the conversion of the pharmacy from inpatient to outpatient.

May 5, 2003: High Desert Hospital submitted its application for a surgical clinic license and for certification as an Ambulatory Surgery Center.

May 6, 2003: High Desert Hospital submitted its application for Medi-Cal certification of its non-surgical clinics.

May 15, 2003: High Desert Hospital sent correspondence to State Licensing seeking approval to place four intensive care unit beds into suspense.

May 21, 2003: High Desert Hospital sent correspondence to California Board of Pharmacy regarding changing the name of the facility, upon conversion to a MACC.

May 30, 2003: High Desert Hospital sent notice to the State of termination of Medi-Cal participation as an acute hospital.

May 30, 2003: Outside counsel, on behalf of DHS, sent a request to State Licensing to convert High Desert Hospital's acute license to a skilled nursing facility license.

May 30, 2003: High Desert Hospital sent notice to JCAHO of hospital closure.

May 30, 2003: DHS gives notice to Laboratory Field Services Branch of State DHS of change in status of laboratory from hospital-based to part of a freestanding clinic.

June 3, 2003: Board consideration of amendment to Medi-Cal contract to remove High Desert Hospital as a service location.

June 15, 2003: Notice will be sent to the American College of Radiology on the change in the name of the entity operating the mammography program.

June 15, 2003: Publication in local newspapers of notice of termination of participation in the Medicare program.

June 20, 2003: Notice will be given to Federal Drug Enforcement Agency of closure of inpatient pharmacy will be given.

July 30, 2003: Notice to Office of Statewide Health Planning and Development of hospital closure will be given.

July 30, 2003: Notice to the Radiological Services Branch of State Department of Health Services regarding name change for registered owner of x-ray and other equipment, and the operator of the nuclear medicine service.